

LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Arts Council and Foundation
Two Years Ended June 30, 1997

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**REVIEW: 4035
ILLINOIS ARTS COUNCIL
TWO YEARS ENDED JUNE 30, 1997**

FINDINGS/RECOMMENDATIONS - 6

**ACCEPTED - 4
IMPLEMENTED - 2**

REPEATED RECOMMENDATIONS - 2

PRIOR AUDIT FINDINGS AND RECOMMENDATIONS - 7

This review summarizes an audit of the Illinois Arts Council for the two years ended June 30, 1997, filed with the Legislative Audit Commission April 8, 1998. The auditors performed a financial and compliance audit in accordance with State law and the requirements of the Federal Single Audit Act of 1984. The auditors stated that the financial statements were fairly presented.

The Illinois Arts Council was created by legislation enacted in 1965. The Council is composed of not less than 13 nor more than 35 members appointed by the Governor. The Chairman is designated by the Governor. Council members do not receive compensation; however, they are entitled to reimbursement of expenses incurred in the performance of their duties. The Illinois Arts Council receives funds through a State of Illinois General Revenue Fund appropriation and grants from the National Endowment for the Arts.

The Illinois Arts Council promotes the arts in Illinois through both financial and professional assistance to individual artists and arts organizations. The Arts Council also works with local arts agencies to stimulate the use of local resources for the development and support of the arts. In FY97, the Arts Council received 1,861 grant applications and employed 121,000 artists through grants awarded.

Ms. Rhoda Pierce is the Executive Director of the Illinois Arts Council. Ms. Lori Spear-Montana was the Executive Director of the Illinois Arts Council during the two-year period under review.

The number of full-time equivalent employees was:

	<i>FY97</i>	<i>FY96</i>	<i>FY95</i>
<i>Administration</i>	14	14	13
<i>Programs</i>	8	9	9
TOTAL	22	23	22

Expenditures from Appropriations

Appendix A presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total \$8,007,000 to the Illinois Arts Council in FY97, with \$7,502,300 from the State's General Revenue Fund, and \$504,700 in federal funds. Total expenditures increased from \$6,256,129 in FY96 to \$7,995,329 in FY97, an increase of \$1,739,200, or 28%. Grant expenditures increased \$1,720,814, or 35.3%, in FY97 due to restoration of prior years' appropriation cuts. Expenditures for many line items in FY96 were unusually low. As an example, electronic data processing expenditures decreased \$9,120, or 52.5%, in FY96 due to reduced hardware upgrades in anticipation of conversion of the network and software. Expenditures for electronic data processing then increased \$11,950, or 145%, in FY97 due to the conversion of the grants computer network system and software.

The following graph shows Arts Council expenditures by funds for FY92 - FY97:

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Property and Equipment

Appendix B summarizes the changes in property and equipment. The ending balance in FY97 was \$232,381, or \$9,487 more than the beginning balance in FY96.

Cash Receipts

Cash receipts as of June 30, 1997 totaled \$474,329, compared to \$759,303 as of June 30, 1996. The decrease in cash receipts in FY97 was due to the decline in receipts in the federal grant fund, which receives receipts directly from the National Endowment for the Arts (NEA). The Illinois Arts Council's funding from the NEA in FY97 decreased by \$284,660. The NEA awards are formula grants and the amount received is a function of the federal allocation to the NEA which is prorated to the 50 states, primarily on the basis of population.

Illinois Arts Council Foundation

The table appearing in Appendix C summarizes the revenues and expenditures of the Illinois Arts Council Foundation. Revenues to the Foundation come from private contributions and amounts are discretionary on the part of outside donors. The Foundation's revenues decreased from \$72,244 in FY96 to \$55,259 in FY97.

Accountants' Findings and Recommendations

Condensed below are the six findings and recommendations presented in the audit report. There were two repeated recommendations. Five prior recommendations have either been withdrawn or implemented. The following recommendations are classified on the basis of information provided by Rhoda A. Pierce, Acting Executive Director, in a letter dated August 24, 1994.

Accepted

- 1. Institute adequate procedures to begin performing grant compliance audits. Implement procedures to ensure that all grants are approved by the Council and Special Assistance Grants are properly authorized before funds are released. Tighten internal controls to ensure that grants funds are not released unless signed cash requests are on file.**

Findings: There were no grant compliance audits performed by the Council. Administrative Fellowship Grants were not approved by the Council before funding. Special Assistance Grants over \$5,000 were not being properly approved before funds are released. Grants were expended without signed cash request forms by the grantee. The following deficiencies were noted:

Accepted - continued

- The Council's Fiscal and Grant Departments did not perform grant compliance audits during the two-year period ended June 30, 1997. The Council's internal policy requires the monthly audit of grantee final grant reports by the Fiscal and Grant Departments. The Council awarded 1,036 grants, totaling \$6,592,010 to organizations and individual artists in FY97. In FY96, the Council awarded 1,131 grants totaling \$4,871,196. Audits of organizations and individuals receiving State and federal grant money from the Council ensure that grant funds are being properly expended for the intended purpose;
- Out of 57 grants tested, two Administrative Fellowship Grants were not approved by the Council. The funding for these two grants totaled \$33,083 and were released without approval from the Council. The Council's procedures manual states the Council shall vote to approve, reject, or modify the panel grant recommendations;
- Ten out of 15 Special Assistance Grants over \$5,000 tested were funded without the proper authorization. The grants review sheet either contained no authorizing signature or was written in by the Assistant Deputy of Programs that the grant was approved by the Executive Committee. These grants, totaling \$250,248, were all

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approved by the Council. A Council memorandum directs Council personnel to ensure that such grants over \$5,000 have the authorizing signatures of the Program Director, Panel Chair, Executive Director, Council Chair, and the Executive Committee. Council management stated it was not the Council's intent to require written signatures from all parties; and

- One grant amounting to \$18,000 in FY97 and one grant for \$10,000 in FY96 were expended without a signed cash request form from the grantee. The Council's procedure manual requires signed cash request forms prior to the release of grant funds.

Response: The Department responded:

- Implementation of audit procedure is scheduled to be completed by March 1, 1999.
- Grants Office has been instructed that all grants must be published in the Council book for presentation to the Council at the next regularly scheduled meeting.
- Implemented.
- Subject grants were contracted using nonstandard grant agreement forms which caused deviation from normal procedure to obtain cash request. The grant for \$18,000 in FY97 was the first of two grants to the same individual. The second grant had the cash request attached after the error on the first grant was recognized. The Grants Office has been reminded to require a cash request on every grant prior to release of funds.

2. Enact procedures to ensure that Council members and panelists do not vote on grants to organizations with which they are affiliated.

Findings: Members of the Council and panelists voted on grants to subrecipients with whom they had an affiliation. Panelist affiliation statements were not retained by the Council. The following deficiencies were noted:

- **Arts Council Members:** Two grants, one in FY96 for \$4,840 and one in FY97 for \$10,000, were approved by Council members who had affiliations with the grantees. The members disclosed their affiliations with these two organizations on their affiliation disclosure statement, but did not abstain when the Council voted on relevant grant proposals. Council officials stated these votes occurred because Council members and staff did not follow established procedures that identify these types of conflicts of interest;
- **Panelists:** The auditors reviewed documentation for three of 14 advisory panels to determine proper abstention from voting on grants to organizations with whom panelists are affiliated. Only one panel maintained the affiliation statements. All other panelist affiliation statements were not available for inspection for grants funded in FY96. Upon further testing, it was determined one panelist had voted on

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one grant for \$16,500 for which the panelist had an affiliation. The panelist properly disclosed the affiliation on the affiliation disclosure statement. The Council's Program Director stated that after discussion with the panelist, they decided there was not a conflict of interest. However, there was no documentation to support this.

This same audit finding was found in the Council's 1991 and 1993 audit (though was not present in the 1995 audit).

Response: The Council responded:

- These errors were the result of oversight when applying the review procedure rather than a fault in the procedures. Due diligence will be applied to the procedure to ensure zero tolerance of errors.
- Implemented.

4. Implement procedures to ensure approval of vouchers within 30 days of receipt of the invoice. Before payment is approved thoroughly review vouchers to the payment authorization.

Findings: The Council did not prepare vouchers properly. Various vouchers were not approved within 30 days of receipt of the invoice, voucher numbers were duplicated, one invoice was paid twice, appropriation codes were incorrect on vouchers, and one voucher

Accepted - concluded

did not agree to the Council payment authorization. The following deficiencies were noted:

- 10 of 51 vouchers tested were not approved for payment within 30 days. The vouchers were approved five to 173 days late. Late approved vouchers totaled 18.5% of those tested. Failure to approve vouchers on a timely basis could result in an additional expense to the State due to the imposition of interest charges as specified by statute;
- There were two instances where the same voucher number was issued for different invoices and different payees. Voucher number duplication can cause failure to pay vendors timely and result in additional expense to the State due to the imposition of interest charges;
- One invoice for direct travel expense in the amount of \$382 was paid twice. After the auditor informed Council officials, the Council requested a refund from the payee;

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- Three vouchers out of 51 tested contained an incorrect appropriation code. Appropriation codes were processed correctly on the contract obligation document and then erroneously processed on the voucher. As a result, these vouchers were incorrectly paid from the wrong fund. They were subsequently corrected at the Comptroller's office; and
- The payment amount on one voucher out of 51 tested did not agree with the payment authorization amount. The voucher was issued for \$34,000 for postage but the approved amount was \$34,500.

Response: The Council agrees, stating:

- Staff have delayed processing vendor bills within the required time frame. The Council will review these procedures with staff, with emphasis on timelines.
- Both instances of duplicating invoice numbers resulted from attempts to expedite vouchers by not following normal payment procedures. Staff have been instructed to avoid short-cuts when processing invoice vouchers.
- One payment was made from a copy of an invoice, not from the original invoice. Staff have been instructed to pay only from original source paper.
- The three vouchers related to three grants whose funds were jointly paid from State and federal funds. As these situations cause control problems, the agency will refrain from using joint funding sources.
- Staff have been instructed to compare voucher amount and payment authorization amount to ensure they are equal.

5. Institute procedures requiring written approval prior to any travel and adequate review of travel vouchers before payment is approved.

Findings: Out-of-state travel was not approved in writing prior to travel. Travel vouchers were not signed by supervisors. Travel payments were reimbursed without a signed travel voucher and proper supporting documentation.

- Council staff did not receive advance approval prior to out-of-state travel. Out-of-state travel amounted to \$7,987 for both fiscal years. The Council's own internal control policies require that all major travel expenditures, such as significant out-of-state travel, be approved in advance. Vouchers are not to be paid unless the written advance approval is on file;
- Of the 19 travel vouchers tested, one voucher did not have supervisory approval; and

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- Of the 14 Council members' travel vouchers tested, one Council member was reimbursed for travel to panelist meetings in the amount of \$462 without a travel voucher and proper supporting receipts.

Response: The Council responded:

- Implemented.
- Agree. This resulted from an oversight.
- Agree. The agency's copy of the travel voucher which was submitted to the Comptroller was lost. Documentation of incurred expenses is in file.

Implemented

3. **Prepare the NEA grant application in time to submit the application to the Bureau of the Budget for State approval prior to submitting the grant application to the NEA for funding. (Repeated-1995)**

Findings: The Council did not submit its application for federal assistance to the Bureau of the Budget for approval prior to submitting the application to the National

Implemented - concluded

Endowment for the Arts (NEA) for funding consideration. For FY97, the Council submitted the grant application to the NEA on December 15, 1995. The Bureau of the Budget did not approve the grant application for submission to the NEA until December 29, 1995. A similar situation occurred in FY96.

Council officials stated they failed to prepare the NEA grant applications in time to first seek the Bureau of the Budget approval before submitting the application to the NEA for funding considerations. Under State law, each State agency is required, at least 45 days before submitting its application to a federal agency, to report to the Commission on Intergovernmental Cooperation what the grant is intended to accomplish and the specific plans for spending the federal dollars received. The Commission on Intergovernmental Cooperation is then required to immediately forward such materials to the Bureau of the Budget.

Response: Implemented. For FY98, application was submitted to the Bureau of the Budget on August 20, 1996. For FY99, application was submitted to the Bureau of the Budget on August 19, 1997. Both dates are 45 days prior to submission to the National Endowment for the Arts.

6. Request cash advances from the National Endowment for the Arts to cover expenditures for the subsequent 30-day period only. Immediately disburse funds received from the NEA upon receipt. (Repeated-1995) (Federal)

Findings: The Arts Council's system for requesting federal funds did not minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of those funds. Cash requests made by the Council must reflect expenses to be incurred within the subsequent 30 days.

However, for FY96, cash advances received by the Council covered expenditures for 60-120 days. On February 9, 1996, \$200,000 in federal funds was requested. This advance covered expenditures of \$175,990 from February to July 1996, but should have only covered expenditures through March 9, 1996. Cash advances made in July, October, and December 1995 covered expenditures in excess of 30-90 days.

In FY97, a cash advance of \$100,000 was requested on August 9, 1996 and covered expenditures of \$90,339 from August to October 1996, but should have covered expenditures only through September 9, 1996. A final cash request of \$50,000 on April 10, 1997 covered expenditures of \$30,643 from April to June 30, 1997, but should have covered expenditures only through May 10, 1997. The federal fund cash balance was \$19,357 as of June 30, 1997 indicating the full \$50,000 was still not expended.

Poor cash management can lead to shortfalls or windfalls in actual cash needed for operations.

Response: Implemented. Beginning July 1, 1997 a revised procedure has been instituted to ensure funds are disbursed within 30 days of receipt.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that "the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency

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purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY96 and FY97, the Arts Council did not file any affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State Agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

The Arts Council indicated as of July 1997 the Council did not have any employees assigned to locations other than official headquarters.

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